ECONOMIC EFFECTS OF NAFTA

Testimony of Ambassador Richard Fisher
Deputy United States Trade Representative
before the
Senate Committee on Foreign Relations
April 13, 1999

Mr. Chairman and Members of the Committee, thank you for holding this hearing on the effects of the North American Free Trade Agreement (NAFTA) on the U.S. economy, and for inviting me to appear here this morning, alongside two celebrated public figures.

As you requested Mr. Chairman, I would like this afternoon to address the impact of the NAFTA on jobs, wage rates, and industry, especially the American textile industry. I will be using many statistics and numbers in this hearing. I think it best to preface my statement by first stating that, perhaps more than most, I know what lies behind these numbers. I ran a business in the private sector for twenty years before being asked to serve my country. Second, I am a Texan who grew up in Mexico. I have spent a great deal of time in deep South Texas and in Northern Mexico on the very frontier of NAFTA. More importantly, however, I know what it is like to watch a father lose his job, or "be displaced" in the sanitary parlance of economists. I know what it is like to have two working parents. I was a "latch key kid" before sociologists coined the term. I know that behind every job number there is a human being, a family, a sense of self-worth and dignity.

It is against this background that I am here to tell you that NAFTA is a good thing. Like the music of Wagner, it is not a bad as it sounds, especially the version to be played by the witnesses who will follow me today, both of whom are gifted rhetoricians, far more skilled than I. We benefit from the NAFTA. We would be worse of without it. We should celebrate it, not condemn it.

NAFTA at Five

Chuck Hayes, the CEO of Guilford Mills Inc. of Greensboro, North Carolina, a manufacturer of fabric, recently said about the NAFTA,

> “This just doesn’t help Guilford, it’s going to help the entire [U.S.] textile industry. . . The theory is simple: if garment makers can be lured to low-cost manufacturing sites in Mexico, they won’t go to the Orient, where they end up buying fabric from textile manufacturers in Japan, South Korea or other Asia countries. If they set up in Mexico instead, they will buy their bolts of cloth from companies north of the border, such as Guilford Mills and its local plants. To me, NAFTA was truly the beginning of a renaissance for the textile industry in the United States.”

Today, the benefits of the NAFTA extend all the way across the country -- through textile mills in

North Carolina, automotive brake factories in New Jersey, fishing resorts in Minnesota, and corn silos in Nebraska. The NAFTA is touching the lives of workers, farmers, consumers, mutual fund investors and entrepreneurs all over the United States.

We as a country are far better off today with the NAFTA than we would have been if we had let Mexico and Canada keep their borders closed to U.S. goods and services. The NAFTA and its side agreements level the playing field, contribute to outstanding U.S. economic performance, help create jobs and economic growth, and advance environmental protection and labor rights. We faced a question five years ago – should we, can we compete in foreign markets, especially the markets of our immediate neighbors? – and the American people have shown us that the answer is most definitely yes. NAFTA has proven to be right for America.

FOUNDATIONS OF THE AGREEMENT

Let me begin my testimony today with some broader context.

America’s trade interests are worldwide. Our goods exports are almost equally divided among four major regions: Asia, Europe, Latin America and North America. Our trade agenda includes major initiatives in each region of the world, as well as in the multilateral system that links it together.

But it is fair to say that we have no relationship more important to our trade interests, to our fundamental interests in peace and security, and to the daily lives of our people, than those which are closest to home. This is true in the narrowest trade policy sense: Canada is our largest goods export market and Mexico our second. And it is true in the largest sense of the importance to all Americans of a peaceful, prosperous, environmentally healthy North American continent. And it is true for your home state of North Carolina, Mr. Chairman, as your state exports to the NAFTA countries have increased from $3 billion in 1993 to $5.8 billion in 1998, a 93 percent increase, reflecting a gain of $2.8 billion.

While the North American Free Trade Agreement is fundamentally a trade policy which should be judged on its economic results -- the topic on which I will concentrate today -- it is also an effort to preserve and strengthen this cooperative relationship with our neighbors and allow us to work more closely on issues beyond trade.

BEFORE NAFTA

As Ambassador Rufus Yerxa, my predecessor as Deputy U.S. Trade Representative, noted in his testimony to the Foreign Relations Committee in 1994:

"NAFTA is good economic policy and good foreign policy."

That was the Administration's judgment, and that of the 104th Congress, because of its potential for fundamentally improving our economic relationship, and our cooperation in broader areas, with our two largest neighbors. It addressed significant barriers to American trade in Mexico, thus building upon the prior accomplishment of the US-Canada Free Trade Agreement. These barriers included:

- Mexican tariffs on industrial goods averaging 10 percent, approximately more than twice the prevailing U.S. average of 4.0 percent.

- Numerous "buy-Mexican" provisions and export requirements for American companies operating in Mexico.

- Mexican markets closed to many American service providers, including financial services, telecommunications, the professions and others.

- Numerous import licensing requirements, combined with high tariffs for agriculture, which virtually proscribed American farm and ranch exports.

- Weak standards for protection of copyrights, patents and trademarks.

- Very serious border environmental problems, especially in water pollution and public health, and little history of cooperation between the U.S. and Mexico on these issues.

- Fundamentally different relationships between labor, government and business, with deeply ingrained roots dating back to the Mexican Revolution.

The NAFTA addressed all these issues. It created a fundamentally more equitable trade relationship, equalizing tariff levels and removing non-tariff barriers to service providers, ranchers and farmers. And it included innovative side agreements to address labor and environmental issues, recognizing that our interests in relations with our closest neighbors go well beyond technical trade issues.

RESULTS OF THE NAFTA

Agreeing to the NAFTA was a step which demanded courage and vision from all three countries. In the U.S., of course, NAFTA heightened the profile of trade agreements in the public eye, but also border environmental problems, disparity between wage rates, and fears that American factories would move south. Canadians and Mexicans faced their own fears about engaging even more directly with the most competitive workers, entrepreneurs and overall economy in the world.

The National Economy

But the results, five years later, justify the work. In the broadest sense, together with the continuous reduction of the federal budget deficit beginning in 1993, and the Administration's support for increased education and training, the expansion of trade in the past six years has helped us create the best economic environment our country has ever enjoyed. Since 1992:

- Our economy has prospered. Our gross domestic product has expanded from $7.1 trillion to $8.5 trillion in real terms (1998 dollars), and we have the benefit of the longest peacetime expansion in America's history.

- Our country has created jobs. Since the beginning of this Administration, employment in America has skyrocketed from 109.5 to 127.2 million, a net gain of nearly 18 million new jobs. Unemployment rates plummeted from 7.4 percent to the historic low of 4.2 percent reported last month. The unemployment rate in North Carolina has fallen to 3.1 percent, due, according to the Greensboro, North Carolina, *News and Record* (1/24/99, p. 25), “primarily by the creation of new jobs to assist with the record level of exports to Mexico,” which “rose from $442.7 million in 1992 to $1.2 billion last year, according to the Wachovia North Carolina World Trade Index.”

- Inflation has been kept in check and has declined since 1993. For example, consumer prices rose only 1.6 percent in 1998.

- The U.S. budget surplus of $70 billion for fiscal year 1998 was the first surplus since 1969, the largest surplus ever, and the largest surplus as a percentage of our GDP since the 1950s.

- And our families have enjoyed higher living standards. Since 1992, average wages have reversed a twenty-year decline and have grown by 6.0 percent in real terms, to $449 a week on average. This family prosperity is reflected, for example, in record rates of home ownership and record rates of investment by ordinary Americans in the stock market, especially through mutual funds. Today, according to the Investment Institute of America, 75 million Americans are invested in equity mutual funds, up from 25.8 million households in 1992. This is a revolutionary development unparalleled in all of history.

The NAFTA has contributed to this economic boom by creating fairer and more open markets for Americans. The U.S. economy has long been far more open to Mexican goods and services than Mexico has been to U.S. goods and services. This imbalanced equation is being changed under the NAFTA, which is opening new opportunities for our workers and industry to compete.

Since 1993, Mexico has abolished extensive non-tariff barriers that kept out U.S. goods, such as import licensing, and local content and trade balancing requirements. And Mexico's average tariff has already fallen to about 2 percent. As a result, two-thirds of our goods now pass into Mexico for sales free of any tariff. The NAFTA also builds on our ties with Canada – the world's largest bilateral trade relationship. Today, nearly all of the $330 billion in goods traded between Canada and the United States are traded duty-free.

Americans have taken advantage of these new opportunities. NAFTA has helped to strengthen the U.S. economy. During NAFTA's first five years, U.S. goods exports to our NAFTA partners combined increased by about $93 billion, or 66 percent, to about $235 billion. If we look at the countries individually, U.S. exports to Canada, our largest trading partner, increased by about $55 billion or 55 percent to $156 billion. U.S. exports to Mexico increased by about $37 billion or 90 percent to $79 billion. Total exports from the Tar Heel State alone to our NAFTA partners increased 93 percent over the last five years, reaching $5.8 billion in 1998.

Now, these are big numbers, so let me put our NAFTA export performance into proper perspective. In 1998, the $156 billion in goods we exported to Canada were as much as we exported to all the countries of East Asia put together. This year we will export five times as much to Mexico as to China. Our exports of $79 billion in goods to Mexico makes Mexico our second largest export market, after Canada.

Two weeks ago, while in Mexico, I drove past some of the neighborhoods where I remembered playing as a child. As I looked at those residential areas, at the parks with the lakes where we used to rent little boats, I saw those boats again, and I saw many children playing the same games. But what I also saw were potential customers for American products – clothes, cars, food – the whole range of goods we make. Our stellar export numbers, in spite of the dramatic exchange rate crisis and resulting deep economic downturn in 1995, show it is wrong to categorize Mexico simply as a poor country that cannot afford to buy the things we make.

In fact, Mexico is a developing and growing country with a very high propensity to purchase and consume U.S. goods and services to satisfy its needs, eager for a partnership to keep it developing, and willing to play by the rules imposed by the NAFTA – even in the worst of economic times in 1995 – so that trade is not a zero-sum game.

NAFTA: an Agricultural Success

The NAFTA has been tremendously successful in increasing U.S. exports of agricultural goods to Mexico and Canada. Our agricultural exports to Mexico have grown from $3.6 billion in 1993 to $6.1 billion in 1998, a 70 percent increase. Exports to Canada have increased as well, growing from $5.3 billion in 1993 to over $7 billion in 1998. Mexico is now the third largest market for U.S. agricultural exports, exceeded only by Japan and Canada. Agricultural exports to Mexico now account for more than 11 percent of all U.S. agricultural exports. Exports to Canada and Mexico combined now account for over one quarter of all U.S. agricultural exports worldwide.

Our export growth to Mexico has been most dramatic in the products subject to the most trade restrictions prior to the NAFTA. Bulk agriculture exports increased over a billion dollars between 1994 and 1998; intermediate exports were up over $300 million.

An indication of the importance of agricultural trade with Mexico comes from the most recent "Outlook for Agricultural Trade" published February 22, 1999 by the Department of Agriculture. USDA predicts declines in agricultural exports for fiscal 1999 in all major markets – except Mexico. The projections for Mexico are for an increase in FY 1999 of $700 million dollars in U.S. agricultural exports, which would mean Mexico's market will be worth $7 billion to the American economy.

As U.S. exports decreased last year due to the Asian financial crisis and depressed world commodity prices, the relative importance of the Mexican and Canadian markets to our farmers has grown dramatically. While Japan purchased $1.4 billion less in 1998 and exports to Southeast Asia fell by $900 million, exports to Canada and Mexico went up by about 10 percent, or roughly $1.2 billion in 1998.

State Results

The chart attached to my testimony gives a breakdown by state to show who is benefitting from the expansion of trade that has occurred since the NAFTA. Amazingly, our data reveals that every single state in the union, all fifty of them, have enjoyed increased NAFTA trade. {*See Attachment 1*}

This includes the home states of every Member of this Committee. I am happy to be able to mention that every state represented by the members of this Committee enjoyed significant gains from trade with our NAFTA partners. California, for example, saw its exports climb by $12.6 billion, a 95 percent increase. Even the smallest increase percentage-wise, recorded by Oregon at 29 percent, meant an extra billion dollars in increased trade. Exports to Mexico alone in some states shot up by 100 percent, 200 percent, and in some cases by more than 300 percent over the last five years. North Carolina's exports to Mexico, for example, increased 333 percent, growing from $398 million in 1993 to over $1.7 billion in 1998. {*See Attachment 2*}

As a result, we hear of stories like that of **General Time Corporation** of Norcross, Georgia, a small manufacturer of clocks, which saw its sales to Mexico increase 800 percent in 1998, thanks to the reduction in Mexican tariffs under NAFTA.

Likewise, **Goulston Technologies** of Monroe, North Carolina, a small manufacturer of lubricant for synthetic fibers, witnessed its export sales to Mexican fiber producers multiply more than 250 percent since the passage of NAFTA, and so increased its staff here in the United States significantly in order to better serve the Mexican market. After the passage of NAFTA, tariffs on most of Goulston's products dropped from 15 percent to zero, giving it a distinct advantage over non-NAFTA competitors.

NAFTA AND JOBS

Each of these stories mean new opportunities for American to find better jobs and improve family standards of living. As a whole, U.S. unemployment has dropped from 6.7 percent in January 1993 to 4.2 percent here in America in March 1999 – a lower rate than that of any other industrial nation. A lot goes into that figure, but NAFTA and its facilitation of trade opportunities are part of it, everywhere in the country. It represents:

- Taylor Dunn, a manufacturing firm in Anaheim which makes electrical vehicles, adding fifty workers because NAFTA cut Mexico's tariff on their products from 25 percent to zero.

- Multiplier Industries in Mt. Vernon, New York, increasing its employee base by 25 percent as its exports of cell phones and two-way radios to Canada and Mexico rise.

- Farmland Industries of Kansas City, the largest farmer-owned cooperative in North America, who sold $50 million in wheat, corn and soybeans to Mexico before NAFTA, today is exporting $450 million and include beef and pork.

If we look just at the period since NAFTA came into effect, in January 1994, total non-agricultural employment was 112.3 million. In March 1999, that figure had risen to 127.7 million. In other words, that's 15.4 million more Americans with the NAFTA who are able to enjoy getting a paycheck from a job that didn't exist before. If you look at the composition of those numbers, we had 18.1 million jobs in manufacturing in January 1994; in March 1999 that number had risen to 18.4 million. That's 305,000 more Americans in good jobs, contributing to our industrial base.

The paychecks these workers are now able to bring home are getting bigger, too. Prior to the NAFTA in 1993, real weekly earnings were $245.87, by February 1999 the average American paycheck had risen to $271.77. That's a gain of 6.6 percent. And it's not because Americans have to work longer – real hourly earnings are up as well, from an average of $7.39 in 1993 to $7.83 in February 1999, a gain of 6 percent. We're not satisfied with this; we know we can do better. But the fact is, after a long period of stagnation, wages are finally going up in real terms.

This reflects in part the effects of the NAFTA. The Administration estimates U.S. goods exports to our NAFTA partners now support more than 2.6 million higher-wage jobs. Based on 1998 trade figures, we estimate U.S. exports to Canada and Mexico support over 600,000 more jobs now than in 1993: U.S. exports to Canada support an estimated 1.7 million jobs, over 300,000 more jobs than in 1993. Exports to Mexico in 1998 supported almost a million jobs, up over 350,000 jobs from 1993. Generally speaking, jobs supported by exports pay 13 to 16 percent more than other jobs in the United States. So, by expanding exports, NAFTA contributes to the creation of high wage jobs.

NAFTA alone has not created all jobs attributed to increases in exports, and we do not claim that the more competitive environment existing since NAFTA has not claimed some jobs. But shifts in trade flows is just one small factor responsible for job dislocation in the United States. On the whole, the record since NAFTA's passage – declining unemployment, rising wages, rapid growth and the world's most competitive large economy for 5 years as judged by independent experts – speaks for itself.

Looking at individual states, we see similar stories. In North Carolina, total non-agricultural employment has risen from 3.3 million in January 1994 to 3.8 million in February 1999, a gain of over half a million jobs (522,600). The unemployment rate in North Carolina has fallen from 4.4 percent in January 1994 to 3.1 percent in February 1999, well below the national average.

Manufacturing employment has declined somewhat in North Carolina, Mr. Chairman, going from 853,700 in January 1994 to 816,200 in March 1999. Total textile mill employment has declined, going from 204,600 in January 1994 to 162,000 in February 1999, as has total apparel employment (from 70,100 to 44,700).

Before anyone jumps to the conclusion that the NAFTA is the cause of the decline in textile and apparel employment in North Carolina or anywhere else, it is imperative that we examine the changing broader economic picture and specifically what role the NAFTA has played in the textile and apparel sector and its trade. Bear with me because this is a topic we examine a bit later in my testimony.

NAFTA AND SPECIFIC INDUSTRIAL SECTORS

In your letter inviting USTR's testimony, the Committee requested USTR address the industries which have been most affected by the NAFTA. In 1997, the latest time frame for which such a comprehensive sector by sector analysis was completed, the Administration conducted a comprehensive study as required by Congress of the operation and effects of the NAFTA in 11 industrial sectors, and the agricultural commodities sector. Those industrial sectors were: automotive vehicles and parts; chemicals and allied products; computer equipment and software; four consumer products sectors, namely, household appliances, household and office furniture, printed products, and recreational equipment; electronic components; processed foods and beverages; telecommunications equipment; and textiles and apparel. The study examined U.S.-Mexico trade and investment patterns in the 12 product sectors, and revealed that:

- Two-way NAFTA trade increased significantly in virtually all sectors.

- NAFTA's reduction in tariff and non-tariff barriers contributed to increased U.S. exports of motor vehicles, electronic components, textiles and apparel, computers, chemicals, and a range of agricultural products, and were a factor in increased U.S. imports of Mexican textiles and apparel and light trucks.

- U.S. exports grew in nine of 12 sectors, in some cases by substantial margins, despite Mexico's peso devaluation in late 1994 and subsequent deep recession.

- More importantly, U.S. exports in eight sectors enhanced their share of Mexico's import market since 1993. Market share was flat in three other sectors. Market share analysis suggests that the Mexican tariff reductions under the NAFTA provided U.S. exports an advantage compared to exports from outside North America.

- Mexican exports to the United States also increased in volume and in shares of the U.S. import market across a range of sectors. These increases were attributable to factors other than the NAFTA in most cases.

    - Major influences on imports from Mexico were lower prices due to Mexico's peso devaluation and efficient joint U.S. and Mexican manufacturing operations that further cut the cost of Mexican products.

    - In key sectors, like auto parts and textiles and apparel, Mexican market share increases reflected competitive advantages accruing to U.S. and Mexican producers as a result of co-production arrangements, which were enhanced by the NAFTA.

    - With very few exceptions, such as textiles and apparel and light trucks, average

U.S. tariffs applied to Mexican imports were already at low levels, or at zero. In fact, 50 percent of imports from Mexico prior to the NAFTA entered the United States duty free. Thus, NAFTA tariff reductions did not account for increased imports from Mexico in many sectors.

-- A further indication that Mexican imports did not displace U.S. production is that U.S. production during the period was strong and growing in all 12 sectors.

- Lowered Mexican tariffs and other barriers through the NAFTA encouraged market-driven coordination of production across the U.S.-Mexican border.

  -- In major sectors such as auto parts, computers, telecommunications equipment, and textiles and apparel, products made in efficient joint manufacturing operations on both sides of the border are displacing imports from other countries in the U.S. market. In the case of textiles, for example, Asian production, which uses no U.S. fibers or inputs, has been replaced by Mexican and Canadian production, which does.

  -- Moreover, many other inputs from Mexico – such as apparel, motor vehicles, computers, and telecommunications equipment – contain substantial levels of U.S. content.

- Capital expenditures in the United States exceeded U.S. direct investment in Mexico by large margins across the range of sectors. Burlington Industries, for example, is planning on capital expenditures of $300 million for plants in Mexico, while spending $350 million to upgrade its plants in Mississippi and other areas of the United States.

NAFTA AND TEXTILE & APPAREL INDUSTRIES

Mr. Chairman, your letter of invitation noted that this Committee is particularly interested in NAFTA's effect on the textile industry, therefore, I will focus on this sector in some detail.

NAFTA Textile Provisions

The textile industry in the United States was a strong supporter of NAFTA when the agreement was negotiated and when it came before Congress. There were several reasons for this. The most important were:

- NAFTA's strong rules of origin, which requires regional input, generally from the yarn production stage onward, to qualify products for preferences under the agreement;

- the opening of Mexico's market (of some 90 million people) to U.S. exports of textile products, on a reciprocal basis; and

- the Customs enforcement provisions, which work to ensure the integrity of the agreement, and additionally, establish mechanisms for the NAFTA parties to cooperate to prevent illegal (extra-regional) textile transshipment from entering NAFTA markets.

The five years that have passed since NAFTA came into force have proven the merits of this agreement for the textile industry. In a statement to the Ways and Means Committee in September, 1997, Carlos Moore, Executive Vice President of the American Textile Manufacturers Institute, said:

> "In ATMI's view, NAFTA is the model of what a trade agreement should be: fair, balanced, reciprocal. By any measure, NAFTA has provided significant benefits for the U.S. textile industry... [A]ll the NAFTA partners have increased their exports of textiles to each other. This is what NAFTA promised and this is what NAFTA delivered to its textile industries."

General Textile and Apparel Trade

In addition to stimulating U.S. textile exports, the NAFTA rules of origin result in a high concentration of U.S. fabric and other inputs in apparel imports from Mexico. Under NAFTA, Mexico has become our largest supplier of imported apparel, and almost 60 percent of the value of U.S. textile and apparel imports from Mexico (in 1998) were comprised of U.S. content (for example, formed and cut fabric). Imports from Mexico in 1998 were almost five times the 1993 level, on a quantity basis, while imports from China, Taiwan, Hong Kong and Korea increased by only one percent during that period. Imports of textiles and apparel from Mexico and Canada were 11.8 percent of our total sector imports in 1993 (in quantity terms) and imports from China, Korea, Hong Kong and Taiwan were 32.5 percent of the total that year. By 1998, imports from our NAFTA partners had grown to 23.2 percent of our total sector imports and imports from China, Korea, Hong Kong and Taiwan had declined to a share of 20 percent. Mexico and Canada are now our first and second largest suppliers of textiles and apparel (in volume terms).

In contrast to the trade with Mexico, textile and apparel imports from our large, traditional Asian suppliers contain virtually no U.S. inputs. NAFTA has thus shifted production and trade to the North American region, which created significant opportunities for U.S. producers, helped to preserve jobs in the United States, increase efficiencies, and to strengthen the industry's global competitiveness.

American-Made Textile & Apparel Exports

NAFTA has also helped promote exports of American-made textiles and apparel. Prior to NAFTA, Mexico's average tariff on U.S. textile and apparel products was 16 percent, whereas the average U.S. tariff on imports from Mexico was 9.1 percent. Under NAFTA, tariffs were immediately eliminated on over one-fifth of U.S. exports to Mexico, and by January 1, 1998, Mexico has eliminated tariffs on 93 percent of U.S. yarn and thread exports, 89 percent of U.S. fabric exports, 60 percent of U.S. exports of made-up textile products and 97 percent of U.S. apparel exports.

U.S. exports of textiles and apparel to Mexico increased by 182 percent between 1993 and 1998, increasing from $1.6 billion to $4.5 billion. U.S. shipments to Canada during that period rose by 72 percent to $3.4 billion.

Added together, this means in just five years, our exports of textiles and apparel products to our NAFTA partners more than doubled, reaching almost $8 billion in 1998, of which over $1.3 billion came from North Carolina alone, up from $366 million five years ago. {*See Attachment 3*}.

Mexico's exports to the United States increased form $1.8 billion in 1993 to $7.5 billion in 1998. Canada's exports to the United States rose from $1.1 billion to $3.1 billion during this period.

In 1998, U.S. exports to Canada and Mexico accounted for 47 percent of total U.S. sector exports, up from 36 percent in 1993, reflecting a combined export increase of 115 percent to NAFTA partners during the period. U.S. sector exports to Canada and Mexico were more than fifteen times greater than U.S. exports to China, Taiwan, Hong Kong and Korea combined, and more than three times as large as exports to Japan and the (15-nation) European Union combined. NAFTA accounted for 75 percent of the total increase in U.S. textile exports between 1993 and 1998.

Employment in Textiles & Apparel

With respect to employment in textiles and apparel, production jobs have been on a downward trend for nearly three decades. This development is related to the effects of enhanced productivity, technological improvements, international competition and other factors. Notably in the textile industry, total production has increased since passage of NAFTA. Thus, Americans are making more textiles today than before NAFTA. We know this much: if we didn't have the NAFTA, there would be less employment in the textile industry in America today.

Employment has continued its long-term decline, but wages in the industry have risen very substantially -- in fact, more rapidly than wages for Americans in general -- since NAFTA's passage. Between 1973 (the peak year for textile and apparel employment) and 1993, the number of production workers in the U.S. textile and apparel sector declined from 2.4 million to 1.7

million. Between 1993 and 1998, employment declined by 297,300 to a level of 1.4 million workers. At roughly the same time, however, the following occurred:

- the combined value of shipments by the U.S. industry rose from $148 billion in 1993 to approximately $164 billion (estimated) in 1998;
- productivity in the industries rose by 18.3 percent;
- wages for production workers in the textile industry increased 17 percent between 1993 and 1998; and,
- wages for production workers in the apparel industry rose 20 percent.

It is true that the U.S. faces a growing trade imbalance in textiles and apparel (growing from $31.5 billion in 1993 to $47.5 billion in 1998), but it is important to recognize that the trade balance can hardly be identified as the principal cause of job loss in the industry, since real production in the U.S. increased slightly over the period.

A major factor in all this is technology. The loss of apparel jobs has been primarily among assembly workers, while employment levels for more-skilled, higher paying jobs such as cutting, computer-aided design and manufacturing (CAD-CAM), marketing, product development and distribution have remained stable. In addition, advances in productivity have to a degree allowed U.S. textile and apparel manufacturers to maintain or increase output through automation and technological improvements while requiring fewer workers. And increased competitiveness resulting from restructuring, technological improvements and production sharing has enabled the industries to increase the value of their shipments.

To be internationally competitive in the global marketplace, U.S. producers of textiles and apparel have improved their productivity, concentrated on specialized products, and established a presence in a growing number of foreign markets. NAFTA has enabled U.S. producers to optimize production and manufacturing investments in North America and has generated increased economic activity and enhanced export prospects for textile and apparel producers in the United States. The NAFTA has made a significant contribution to our industries' ability to maintain global competitiveness, a critical long term goal.

All other things being equal, the NAFTA has helped stem the job losses in textiles and apparel, given that it has improved the competitive situation of the industry regionally and globally. Or, to put it another way, in the absence of the NAFTA, and all other things being equal, the competitive position of the industry would likely have eroded and the likely job losses greater.

PROMOTING INVESTMENT IN THE U.S.

The experience of the textile industry, while unique in certain respects, thus offers some larger lessons. On the whole, the NAFTA has helped create a more competitive North American market, stimulating more investment that benefits us all. Investment decisions can now be made to a greater degree on rational economic and commercial grounds than was the case prior to the NAFTA.

Our largest trade sector with Mexico, autos and auto parts, is a significant example. Prior to NAFTA, Mexico's trade regime set extremely high import barriers and essentially forced manufacturers to invest in Mexico if they wanted to sell in Mexico. This created a structural trade deficit in autos and parts which we are still addressing today.

In 1993, the last year before NAFTA was implemented, we shipped only 3,000 new passenger vehicles to Mexico. By 1997, U.S. exports of motor vehicles had increased over 750 percent, to over 140,000 units. Mexico is now our second largest auto export market.

Imports from Mexico have also grown from 330,000 motor vehicles to 790,000 units in 1997. While substantial, the rate of growth (139 percent) is far less than the rate of growth enjoyed by our exports (750 percent).

However, what is more significant is the recent reversal of trade and investment trends that began well before the NAFTA. In 1997, U.S. exports of both vehicles and parts grew much more rapidly than imports – by nearly 39 percent compared with import growth of 11 percent. For vehicles only, exports increased by 55 percent in 1997 over 1996, while imports increased 2.3 percent.

U.S. employment in the motor vehicle and equipment sector increased by over 14 percent from 1993 to 1998, rising by over 120,000 new jobs. In terms of investment, the United States ranked number one worldwide for automotive investment from July 1995 through June 1997. Mexico was tenth, Canada ninth.

Thus, NAFTA has helped raise, rather than lower, capital investment in the United States. The amount of U.S. direct investment abroad, on a historical cost basis, reached $25 billion in Mexico and $99 billion in Canada, according to the latest figures available. Part of this is because NAFTA is eliminating requirements that forced U.S. firms to invest in Mexico if they hoped to sell in Mexico. In contrast, the total amount of U.S. direct investment abroad has reached $860.7 billion. That means our investment in Mexico is less than 3 percent of our interests world-wide. The idea that we are facing a massive shift of capital investments to Mexico, and the jobs that go with them, is simply wrong.

All of these figures, incidentally, pale in comparison to the stock of non-residential investment here in the U.S.A., which amounted to $8.7 trillion in 1997, the latest year data is available. We are not creating conditions for jobs to move overseas – we are creating conditions for firms and workers to prosper right here in America.

NAFTA AND THE TRADE BALANCE

Let me also address the relationship between NAFTA and our trade balance. A number of observers have claimed the bilateral trade deficits that we have with Mexico and Canada are a function of the NAFTA and its implementation. However, economic analysis shows no sound rationale for this assertion.

The major causes of the shift to a bilateral deficit with Mexico were macroeconomic and exchange rate forces: the sudden and unexpected peso devaluation and the subsequent depression in Mexico when domestic consumption declined 15 percent in 1995. In addition, the U.S. economy was growing, in contrast, and consuming more than it produced. The NAFTA, if anything, was a force helping to limit the deficit – and certainly any decrease in U.S. exports – given that the NAFTA continued to require that Mexico reduce its barriers to U.S. goods and services.

It is important to remember that Mexican tariffs were far higher than U.S. tariffs and U.S. tariffs were very low on Mexican goods even before the NAFTA. Therefore, the elimination of this disparity is in our interests. You may recall that in the early 1980s Mexico went through a financial crisis, and in response, raised tariffs and imposed import licensing restrictions that sharply cut U.S. exports – by 50 percent – with a resultant decrease in estimated jobs supported by those exports to Mexico of over 200,000. The NAFTA protected us from a similar outcome in the 1994-95 crisis.

A study by an economist at the Dallas Federal Reserve, for example, supports this view on the deficit issue. Mainstream economic thought will not attribute the bilateral deficit with Mexico to the NAFTA.

PROTECTION DURING THE ASIAN FINANCIAL CRISIS

The NAFTA's role in protecting us from the worst effects of the Asian financial crisis has been at least as important as its role in the 1995 peso crisis.

By bringing down, keeping down, and even lowering further, tariffs and other barriers, it allowed our exports to Mexico and Canada to grow by $13 billion in 1998. Exports to Mexico were up 11 percent last year from 1997; exports to Canada were up 3 percent. Meanwhile, our exports to the entire world were down by about 1 percent in 1998. Without our exports to the NAFTA countries, our overall exports would have been down 4 percent. Our NAFTA partners now account for a third of all our exports, and growth in our NAFTA trade has helped to shield our economy from the Asian financial crisis.

We now export three times as much to Canada as to China, Hong Kong and Taiwan combined. As our exports to the Pacific Rim dropped by $26 billion last year, this growth in exports to our NAFTA partners protected jobs in manufacturing, farm and service sectors, and incomes of blue and white collar workers, Democrats and Republicans, whites, blacks, and Hispanics – all across America.

NAFTA & THE ENVIRONMENT

Let me now turn away for a moment from the direct economic issues associated with NAFTA.

In our relations with our immediate neighbors, we have concerns that extend well beyond trade. We expect that growth should come hand in hand with a higher quality of life and the advancement of basic values -- clean air, clean water, public health and protection for our natural heritage; safety, dignity and elementary rights for working people; a common front against crime and corruption. NAFTA has allowed us to improve our working relationship with Mexico and Canada in these areas as well. We have huge challenges that are not yet addressed, but the NAFTA and its side agreements put us in a better position to deal with them.

Environmental protection is an example. Through the Commission on Environmental Cooperation, created by NAFTA's environmental side agreement, we have reached agreement with our neighbors on conservation of North American birds and created a North American Pollutant Release Inventory. The CEC has also helped us devise regional action plans for the phase-out or sound management of toxic substances, including DDT, chlordane, PCBs and mercury. Important cooperative work is also underway on environmental enforcement, as the Environmental Protection Agency has trained hundreds of Mexican environmental officials in the past five years, and Mexico has substantially increased its budget resources and inspections related to environmental law compliance since the NAFTA passed.

The NAFTA is also helping our countries reduce the costs of environmental protection. The United States and Canada, for example, have established protocols for the coordinated review of certain new pesticides, such as those that are designed to be safer replacements for older, more risky pesticides. By sharing data review responsibilities, joint reviews lower regulatory costs, expedite registration of safer pest-control tools, increase the efficiency of the registration process, and provide more equal access to pest management tools by farmers across North America. Joint reviews have been announced for diflufenzophr, which could significantly reduce the total application of herbicides on corn in the United States (with most of the reduction resulting from the decreased use of atrazine, a chemical that reaches groundwater), and cyprodinil, which is effective against a range of disease organisms including scab on apples and blossom blight and brown rot in stone fruits. Cyprodinil is a reduced-risk chemical pesticide, presenting lower risks to human health than traditional chemical pesticides.

Likewise, the North American Development Bank has begun fourteen projects in border towns which will reduce water pollution and improve health on both sides of the border. To choose an example close to my home state, Juarez broke ground last November for its first waste-water treatment plant. That is going to mean better health and cleaner water for a million people in Juarez, another million in El Paso, and for towns and villages all along the upper Rio Grande. A similar project has opened on the American border near San Diego and Tijuana, which will remove effluents from the water, which were being emitted well before NAFTA.

In addition, the environmental side agreement and the BECC/NADBank agreement have provided important avenues for citizen participation on environmental matters. Pursuant to a mechanism established under the environmental side agreement, citizens and citizen groups in all three countries have filed submissions with the CEC containing claims that there has been a failure to adequately enforce the environmental laws of one of the NAFTA countries. One of the submissions led to the preparation of a factual record on the development of the pier in Cozumel, Mexico. Following the issuance of the factual record, the Mexican government declared the area of the Cozumel Reef a national marine park and stated its intent to implement a management study of Cozumel Island. The BECC, the NADBank and the CEC meet regularly with the public and have created mechanisms for the inclusion of public input in decision-making.

In this important area of environmental improvement, as with the reduction of barriers to trade in goods and services, NAFTA is incomplete – it remains a work in progress. Yet, as the *Dallas Morning News* pointed out in its editorial on January 4 of this year, NAFTA is "the 'greenest' commercial pact ever, and the U.S. Canadian and Mexican environments are better off with it than without." NAFTA has represented a significant step forward in the environmental aspects of trade.

NAFTA & LABOR

On the labor front, NAFTA's Agreement on Labor Cooperation has generated our largest cooperative effort on labor anywhere in the world. It covers occupational safety and health, employment and training, industrial relations, worker rights and child labor and gender issues, and allows citizens to draw attention to labor practices and improve working conditions.

This has led to important tangible benefits. For example, a labor tribunal reversed itself and granted a union registration in the Maxi-Switch case; a secret ballet union representation vote was conducted for the first time in Mexico in the GE case, and by government employees in the Fisheries Ministry. Mexico's Federal Government intervened in an effort to resolve the very contentious Han Young case; and the Mexican Supreme Court struck down state restrictions on union organizing as unconstitutional. In addition, Mexico has taken other steps to advance the rights of workers, including promulgating new safety and health regulations and nearly tripling funding for enforcement of worker rights, including in child labor.

Likewise, the NAALC has helped stimulate citizen involvement in labor issues, through the filing of twenty separate submissions to the labor commission. Submissions in 1998, for example, led to ministerial consultations on freedom of association and safety and health issues in the Mexican states of Baja California Norte and Mexico. Earlier consultations led to a trilateral conference on the labor rights of women workers in North America, and a work program of trilateral seminars in Mexico City, San Antonio, and Monterrey on union registration, certification, elections, recognition and union democracy.

FUTURE OF THE NAFTA

Mr. Chairman, the NAFTA is a work in progress. It will not be completely implemented until 2008. We are monitoring progress closely and we are learning from our experience, using it to improve the agreement as it goes into force. Our trilateral work program has more than 25 committees and working groups, each advancing the work of the Agreement. We have made an effective trilateral work program a priority and put in place a new high level oversight mechanism within our three Governments.

No trade agreement, of course, can put an end to all our disputes.   We have yet to resolve our concerns on land transportation with Mexico, for example, but we continue to work on the issue. Furthermore, we have very important issues pertaining to high-fructose corn syrup and sugar, and telecommunications barriers with Mexico. We want to work together to address the nemesis of piracy in the area of intellectual property rights, particularly copyright piracy. And we need to further perfect NAFTA's potential to improve the environment and labor conditions of its signatories, especially Mexico.

With Canada, we have serious concerns on a range of agriculture matters and major market access impediments facing our magazine publishers and other media and entertainment industries.   Furthermore, we have the ongoing challenge of enforcing our largest bilateral sectoral agreement anywhere in the world – the U.S.-Canada Softwood Lumber Agreement.

But through the cooperative framework we have built through the NAFTA, we have avoided or solved many disputes. For those that remain, the question is how far we have to go to solve them and how fast to do it.

CONCLUSION

In conclusion, Mr. Chairman, we can be very pleased with the record of NAFTA five years after its passage.

Five years ago, we predicted that this agreement would mean growth; better and more jobs; rising standards of living; and a higher quality of life. Today, we can say that the agreement has been an invaluable force for all these objectives. Our governments are working more closely and accomplishing more than ever before on environmental protection, workplace safety, and all the other issues that affect the daily lives of our citizens. And the agreement allows us to pass on to our children, stronger than ever, the invaluable legacy of peace, cooperation and progress on the North American continent that we have inherited from past generations.

The bottom line on NAFTA? It has helped our country prosper. It has facilitated, through a reduction in barriers, a dramatically expanded volume of American-made goods and services sold to Canada and Mexico. It has reduced the damage the Asian financial crisis has caused in our country and our continent. It has encouraged us to work more closely than ever before with our neighbors – as we have to if we are to ultimately succeed – on crucial topics from narcotics to environmental protection and improvement of labor standards. It is a winner. I am proud of it. And I am determined to tell its story wherever I go.

Thank you very much.

ATTACHMENT 1

Biggest Winners with the NAFTA, by State

Export Growth Rate (1993-1998)		1998 Share of Export Market		Export Value Growth (1993-1998 in billions)	
Alaska	128.2%	Vermont	90.7%	Texas	$14.4
Nevada	123.2%	Michigan	72.5%	California	$12.6
Kentucky	108.5%	Montana	65.5%	Michigan	$12.0
Alabama	105.1%	Indiana	64.1%	Illinois	$5.0
Kansas	96.8%	North Dakota	63.2%	Ohio	$4.8
North Carolina	95.8%	Iowa	56.8%	New York	$4.8
California	95.1%	Ohio	52.6%	Indiana	$3.2
South Carolina	95.1%	Mississippi	52.1%	Pennsylvania	$2.9
Louisiana	93.7%	Texas	51.8%	North Carolina	$2.9
Mississippi	91.9%	South Dakota	50.0%	Minnesota	$2.1

Source: Massachusetts Institute of Social and Economic Research (MISER)

Various reasons account for the states' performances. The states with the largest economies and industrial sectors (California, Illinois, Michigan, New York, Ohio, Pennsylvania, Texas) exported the most, in terms of value, to our NAFTA trading partners. Border states (California, Texas, Michigan, Montana, North Dakota, Vermont) take advantage of their proximity to our NAFTA partners and, along the southern border, the maquiladora industry. Canada and Mexico are the largest export markets for these states. The automotive industry fosters exports from Michigan and Texas. Opening of agricultural trade has sped the growth of exports for large agricultural states (Arkansas, Wyoming, Hawaii, Indiana, Iowa, Kansas, North Dakota, and South Carolina).

ATTACHMENT 2

Increases in Exports, by State 1993-98								
	NAFTA				MEXICO			
	1993 (millions)	**1998** (millions)	**Gain** (millions)	**Percent Increase**	**1993** (millions)	**1998** (millions)	Gain (millions)	Percent Increase
California	13,298	25,942	12,644	**95%**	5,700	11,966	6,266	**109%**
Connecticut	2,036	2,663	627	**31%**	364	597	233	**64%**
Delaware	850	1,323	473	**56%**	179	325	146	**81%**
Georgia	2,015	3,594	1,579	**78%**	360	1,253	893	**248%**
Indiana	6,772	9,975	3,203	**47%**	1,239	3,349	2,110	**170%**
Kansas	776	1,528	752	**97%**	196	524	328	**167%**
Massachusetts	3,366	4,382	1,016	**30%**	393	626	233	**59%**
Minnesota	2,594	4,713	2,119	**82%**	256	928	672	**262%**
Maryland	820	1,122	302	**37%**	102	371	269	**264%**
Missouri	1,934	3,026	1,092	**57%**	577	1,288	711	**123%**
Nebraska	450	742	292	**65%**	65	161	96	**150%**
North Carolina	2,979	5,834	2,855	**96%**	398	1,723	1,325	**333%**
Oregon	1,100	2,050	950	**86%**	114	499	385	**337%**
Tennessee	2,549	4,341	1,792	**70%**	703	1,422	719	**102%**
Wisconsin	2,682	4.433	1,751	**65%**	314	575	261	**83%**
Wyoming	49	88	39	**81%**	5	7	2	**30%**

ATTACHMENT 3

Exports	1993	1998	
North Carolina's Exports of Textiles	(millions)		
			Gain
Canada	165.1	441.7	**168%**
Mexico	39.2	200.4	**411%**
North Carolina's Exports of Apparel			
			Gain
Canada	81.0	160.6	**98%**
Mexico	80.8	563.2	**597%**